

Message Text

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ACTION ARA-17

INFO OCT-01 ADP-00 SSO-00 NSCE-00 PM-09 NSC-10 SS-15

RSC-01 L-03 DODE-00 INRE-00 EB-11 OMB-01 TRSE-00

AID-20 CIAE-00 INR-10 NSAE-00 RSR-01 /099 W

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O 112317 Z APR 73

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC IMMEDIATE 4000

SECRET SANTIAGO 1570

E. O. 11652: GDS

TAGS: CI, MASS, PFOR

SUBJECT: FMS RESCHEDULING

REF: (A) 1447 (B) STATE 65214

1. I RECEIVED TODAY A NOTE FROM CENTRAL BANK PRESIDENT INOSTROZA
ENCLOSING THE MORANDUM HE TOLD ME HE WOULD SEND ME (REF A) ON HIS
CONVERSATIONS WITH THE DEPARTMENT OF DEFENSE MARCH 28 AND 29.
THE MEMORANDUM IS DATED APRIL 5, WHILE THE NOTE CARRIES TODAY'S
DATE. FOLLOWING IS INFORMAL TRANSLATION OF THE MEMORANDUM:

2. BEGIN QUOTE ON MARCH 28 AND 29 DELEGATION OF CHILEAN OFFICIALS
HEADED BY PRESIDENT OF CENTRAL BANK ALFONSO INOSTROZA HELD TALKS
WITH AUTHORITIES OF DEPARTMENT OF DEFENSE OF USG IN CHARGE OF RELA-
TIONS WITH CHILE. TALKS TOOK PLACE IN OFFICE OF MR. VALLIOTET,
WHO CHAIRED THEM.

3. QUOTE IN DISCUSSION HELD MARCH 28 CHILEAN DELEGATION STATED:

(A) THAT CHILEAN TECHNICAL DELEGATION WAS REVIEWING WITH OFFICIALS
OF (MR. VALLIOTET'S) OFFICE FIGURES ON CHILEAN MILITARY DEBT TO
US THAT ENTERED RESCHEDULING AGREEMENT, BASES OF WHICH HAD BEEN
AGREED WITH AMBASSADOR LETELIER.

(B) THAT THEY WERE INTERESTED IN DISCUSSING PAYMENTS OF THESE DEBTS
DUE IN 1973 AND 1974 IN AS MUCH AS IN ACCORDANCE WITH PARIS CLUB
AGREEMENT OF JANUARY 1973 CHILE WAS NOT MAKING PAYMENTS DURING THESE

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PERIODS. CHILEAN DELEGATION STATED THAT CHILE HAD REQUESTED OF PARIS
CLUB CONSOLIDATION OF DEBT SERVICING FOR 1973 AND 1974 BUT

GIVEN SPECIAL SITUATION OF DEBTS TO DEPARTMENT OF DEFENSE, CHILE
WAS WILLING TO MAKE A SPECIAL RESCHEDULING ARRANGEMENT FOR PAYMENTS
DUE DURING THOSE TWO YEARS, BY WHICH THE SITUATION CONCERNING
PAYMENTS OF THESE OBLIGATIONS FOR 1972 AND 1973 (SIC) WOULD BE
SETTLED.

4. QUOTE. CONCERNING THIS PRESENTATION DEPARTMENT OF DEFENSE
OFFICIALS ARGUED THAT IN ACCORDANCE WITH NORMAL PROCEDURES THEY
WERE NOT RESCHEDULING THESE CREDITS AND THAT ARRANGEMENTS FOR 1972
WAS A VERY SPECIAL EXCEPTION: THAT IT HAD ALWYAS BEEN UNDERSTOOD
THAT CHILEAN EMBASSY HAD APPROVED THE BASES OF THE AGREEMENT FOR
RESCHEDULING 1972 PAYMENTS (ON WHICH THEY HAD A LETTER) AND THAT
ONE THE LESS, THE STATEMENT OF THE CHILEAN DELEGATION NOW
AMOUNTED TO A NEW PROPOSITION.

5. QUOTE. PRESIDENT OF CENTRAL BANK EXPLAINED THAT IN EFFECT WHAT
HAD BEEN APPROVED WERE BASES OF RESCHEDULING OF 1972 PAYMENTS,
GOC WAS INTERESTED IN CONCLUDING THIS AGREEMENT, AND REVIEW OF
FIGURES THAT WAS BEING MADE BY CHILEAN OFFICIALS WAS TO ACHEIEVE
THIS END. BUT 1973 PAYMENTS WERE IN SPECIAL SITUATION OWING TO
SUSPENSION OF THESE PAYMENTS IN ACCORDANCE WITH JANUARY PARIS
CLUB AGREEMENT. THEREFORE, HE WAS REQUESTING THAT FORM IN
WHICH THESE PAYMENTS WOULD ALSO BE STUDIED.

6. BESIDES, HE POINTED OUT THAT SITUATION OF 1973 AND 1974 PAY-
MENTS WAS DISCUSSED IN CONVERSATIONS WHICH TOOK PLACE IN MID-1972
WITH EMBASSY ON RESCHEDULING OF 1972 PAYMENTS.

7. QUOTE CONCERNING THIS ARGUMENT, DEPARTMENT OF DEFENSE AUTHORITIES
REQUESTED CHILEAN DELEGATION TO MAKE PROPOSAL FOR RESCHEDULING
THESE PAYMENTS. INOSTROZA PROPOSED THE FOLLOWING:

- (A) RESCHEDULE SERVICING FOR 1973-74.
- (B) MAKE NORMAL PAYMENTS OF INTEREST PORTION OF THIS SERVICING
- (C) PAY 5 0/0 OF PRINCIPAL PORTION OF SERVICING AND RESCHEDULE
BALANCE IN MANNER SIMILAR TO THAT APPLIED TO SERVICING IN 1972.

HE ALSO EXPLAINED THAT WITH REGARD TO THIS FORMULA:

- (A) CHILE REQUEST TO PARIS CLUB WAS TO PAY 5 0/0 OF CAPITAL
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AND INTEREST, SO THAT PROPOSED FORMULA WAS GREATER THAN THAT
PRESENTED TO CLUB AND
(B) THIS AGREEMENT SHOULD BE KEPT CONFIDENTIAL.

8. QUOTE WITH REGARD TO THIS PROPOSAL DEPARTMENT OF DEFENSE
AUTHORITIES STATED THAT PERCENTAGE OF AMORTIZATION WAS LOW, TO WHICH
REBUTTAL WAS MADE THAT PAYMENT OF INTEREST PLUS 5 0/0 OF
PRINCIPAL RESULTED IN TOTAL PAYMENT OF 20-21 0/0, WHICH WAS MUCH
MORE THAN PROPOSAL MADE TO PARIS CLUB. DEPARTMENT OF DEFENSE

AUTHORITIES REACTED TO THIS ARGUMENT BY SAYING THAT THEY SAW
THE FOLLOWING ALTERNATIVE:

(A) MAKE NORMAL PAYMENTS OF 1973 INTEREST AND STUDY RESCHEDULING
OF PRINCIPAL AFTER PARIS CLUB HAS AGREED ON DEBT CONSOLIDATION
FORMULA TO BE APPLIED TO ENTIRE CHILEAN DEBT.

(B) FIX A HIGHER PERCENTAGE FOR PAYMENT OF PRINCIPAL IN ADDITION
TO PAYMENT OF INTEREST.

THEY ADDED THAT THEY WOULD CONSULT AND REPLY PROMPTLY WITH
REGARD TO PROPOSAL OF CHILEAN DELEGATION AND FOREGOING
ALTERNATIVE S.

9. QUOTE THURSDAY, APRIL 29, DEPARTMENT OF DEFENSE AUTHORITIES
REPLIED TO PRESIDENT OF CENTRAL BANK AS FOLLOWS:

(A) THAT PROPOSAL MADE PRECEDING DAY TO RESCHEDULE SERVICING FOR
1973 AND 74 WAS DESTROYING NEGOTIATION ALREADY ACHIEVED FOR 1972.
(B) THAT ALL POSSIBILITY OF RESCHEDULING SERVICING FOR 1973 AND 74
WAS REJECTED AND ALSO THAT, BECAUSE LINK WITH RESCHEDULING FOR
1973 AND 74 WAS NOT ACCEPTABLE, AGREEMENT ON SERVICING OF 1972
PAYMENTS REMAINED IN SUSPENSION.

10. QUOTE CONCERNING THIS REACTION, CHILEAN DELEGATION STATED:

(A) THAT IT DID NOT UNDERSTAND THE LINK THAT DOD AUTHORITIES WERE
MAKING BETWEEN AGREEMENT ON 1972 SERVICING AND PRECEDING DAYS
PROPOSALS FOR SERVICING 1973 AND 74.
(B) THAT IT HAD ALWAYS BEEN UNDERSTOOD THAT AGREEMENT FOR 1972 WAS
BEING MAINTAINED AND WOULD BE COMPLIED WITH WHEN SIGNED, SINCE IT
AROSE FROM COMMITMENTS UNDERTAKEN IN PARIS. FOR PURPOSE OF
PERFECTING THIS AGREEMENT, CHILEAN OFFICIALS WERE REVIEWING
FIGURES.
(C) THAT SIGNATURE OF THIS AGREEMENT WAS NOT SUBJECT TO RESCHED-
ULING OF 1973 AND 74 PAYMENTS AND THAT PROPOSALS OF CHILEAN
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DELEGATION WITH REGARD TO THESE LATER PAYMENTS AROSE FROM INTEREST
IN CLARIFYING THEIR SITUATION.

11. QUOTE DETAILED RESULTS ARE GIVEN IN ANNEXED DOCUMENT OF REVIEW
OF FIGURES MADE BY CHILEAN AND DEPARTMENT OF DEFENSE OFFICIALS.
END QUOTE.

12. ENCLOSURE TO MEMORANDUM READS AS FOLLOWS (INFORMAL
TRANSLATION, UNESSENTIAL WORDS OMITTED):
BEGIN QUOTE BASES OF 1972 AGREEMENT WITH DOD

QUOTE 1. FIVE CONTRACTS DETAILED IN ANNEX 1 ARE INCLUDED IN
AGREEMENT, AND 70 PERCENT OF PRINCIPAL AND INTEREST OF PAYMENTS DUE
UNDER THEM IN 1972 ARE CONSOLIDATED.

QUOTE 2. 30 PERCENT OF PRINCIPAL AND INTEREST WILL BE PAID IN 1972.

BALANCE IS RESCHEDULED BEGINNING IN 1975. (SEE ANNEXES 1 AND 3).

QUOTE 3. PAYMENTS MADE IN 1972 FOR INSTALLMENTS DUE THAT YEAR ARE RECOGNIZED AS ADVANCES UP TO 30 PERCENT.

QUOTE 4. FOR PURPOSES OF RESCHEDULING, AMORTIZATION PERIODS OF ALL CONTRACTS IN ANNEX 1 ARE EXTENDED TO TEN YEARS COUNTING FROM DATE OF FIRST DISBURSEMENT AS DETAILED IN ANNEX 2.

QUOTE 5. REPAYMENT OF 70 PERCENT IS MADE FROM 1975 UNTIL END OF NEW TEN YEAR TERM AS CALCULATED IN POINT 4 ABOVE.

QUOTE 6. RESCHEDULING IS APPLIED TO EACH CONTRACT AND CONSISTS IN TAKING BALANCE OF PRINCIPAL OF EACH CONTRACT AS OF DECEMBER 31, 1971, ADDING INSTALLMENTS DUE 1973 AND 1974 WHICH ARE NOT CHANGED (EXCEPT AS INDICATED BELOW) AND DISTRIBUTING RESULTS OVER YEARS BEGINNING 1975 (INCLUDING THAT YEAR) UNTIL END OF NEW TERM AS INDICATED IN POINT 4 ABOVE (SEE ANNEX 4).

QUOTE 7. VALUE OF 1973 PRINCIPAL IS CORRECTED BY APPLYING SUMS PAID IN ADVANCE AS INDICATED IN ANNEXES 3 AND 4.

QUOTE 8. CONTRACTURAL RATE OF INTEREST IS MAINTAINED, AS INDICATED IN ANNEX 4.

QUOTE 9. APPLICATION AND LIQUIDATION OF 30 PERCENT AND OF PREPAYMENTS
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IS MADE IN ACCORDANCE WITH ANNEX 3.

QUOTE 10. NEW PLAN OF PAYMENTS IS THAT INDIADED IN ANNEX 4.

QUOTE 11. PREPAYMENTS OF PRINCIPAL MADE UP TO DECEMBER 31, 1971 ARE ASSUMED TO BE THOSE DETAILED IN ANNEX 5. END QUOTE.

13. ENCLOSURES WHICH FOLLOW FOREGOING ARE TABLES ON DETAILS OF REPAYMENT SCHEDULES COPIES OF WHICH WE PRESUME DEPARTMENT OF DEFENSE HAS.

14. AS DEPT WILL RECALL FROM REFTEL (A), INOSTROZA'S SUGGESTION WAS THAT I READ THE MEMO HE HAS NOW PROVIDED AND THAT WE THEN MEET. I WOULD APPRECIATE INSTRUCTIONS IN LIGHT OF INTERVENING DEVELOPMENTS IN WASHINGTON (REF B).

DAVIS

SECRET

<< END OF DOCUMENT >>

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